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SUBJECT: DEPUTY FINANCE MINISTER SHAHRANI - BUDGET
EXECUTION IMPROVED, BUT COULD BE BETTER

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1.(SBU) SUMMARY: Deputy Finance Minister Wahidallah Shahrani told ECON Counselor on October 30 that the Finance Ministry recognizes the GOA's budget execution problem and is proactively engaged to improve the capacity of line-ministry procurement and financial management staff. He blamed poor leadership in certain line ministries and ineffective donor technical assistance for the poor rate of disbursement of donor contributions to the GOA's development budget. Nonetheless, he stressed that the GOA is spending money faster than last year's pace. Budget execution will be a central theme of the upcoming November 12 Joint Coordination and Monitoring Board (JCMB) meeting. Despite Shahrani's attempt to shape the discussion, we anticipate that the finance ministry will face some criticism for its slow disbursement rates to line ministries. END SUMMARY.

2.(SBU) DFM Shahrani acknowledged to ECON Counselor that development budget execution would be a central issue in the upcoming November 12 JCMB (i.e., joint Afghan-Donor London Compact coordination) meeting. While the government got off to a slow start because of parliament's delayed passage of the budget, some line-ministries, and the government as a whole, are outperforming last year's procurement pace, he stated. For the first four months of this year, the GOA has spent 27% of its development budget, compared to 12.5% of the development budget spent over the same period last year. For this entire fiscal year, Shahrani projected a 60% expenditure rate, compared to 44% last year. Afghanistan's fiscal year begins in March.

3.(SBU) Shahrani assured ECON Counselor that the Finance Ministry is fully aware of the seriousness of the perception among donors that the GOA is not moving its development budget quickly enough. MOF officials have been working closely with underperforming line ministries, like the Energy Ministry, on procurement and financial management, and are seeing some improvement. The Finance Ministry, he said, also conducted two training seminars for procurement officials earlier in the year.

4.(SBU) Shahrani stressed that capacity building in the line ministries and the Finance Ministry itself is a major challenge. He commented that too many foreign advisors provided by donor countries work independently of Afghan employees in the ministries, and never train these Afghan colleagues. When they leave the ministry, the Afghans are unable to replace the foreigner. He reiterated Finance Minister Ahady's preference that donors pay for regional advisors (e.g., Indians or Sri Lankans) who are more likely to stay for longer periods and work more closely with local staff. Shahrani also made a pitch to be allowed to pay higher salaries to younger, better-educated Afghans to retain them in government jobs, noting that GoA retention of employees following training is a critical issue. Finally, he said that capacity is improving in ministries, like Communications and Rural Development, where ministers are showing strong leadership.

5.(SBU) COMMENT: Shahrani, one of the GOA's sharper senior economic officials, recognized the opportunity to try to shape the coming JCMB debate on the GOA's poor performance on budget execution by trying to lay blame on poor donor and line-ministry performance, while emphasizing the finance ministry's proactive approach to the problem and appealing for donor support. However, we believe the Finance Ministry shares responsibility for not disbursing funds to line ministries' requests for payment as quickly as it could, and needs to play a strong leadership role in engaging with and developing capacity with line Ministries. We will explore ways to be supportive, including shaping discussion with UNAMA and other donors through the JCMB process, and notably at the November 12 JCMB meeting. END COMMENT.